CHAPTER 5
ORIGINATION RECORDS
AND PROMISSORY NOTES

Essential Origination Record Questions

❖ What does it mean to originate a loan?

❖ When is it appropriate to create a loan origination record?

❖ What data elements are needed to create the origination record and where do they come from?

❖ What is a loan ID and what does it have to do with a loan origination record?

❖ How do you create the loan origination record and, once completed, what happens to it?

❖ How long can a school maintain loan origination records before submitting them to the Direct Loan Servicing Center?

Essential Promissory Note Questions

❖ How does the software "know" that a promissory note is ready to print?

❖ May a school print its own promissory note instead of using the preprinted Department note?

❖ Can the Direct Loan Servicing Center print promissory notes for schools?

❖ Is one promissory note used for a student who has both Direct Subsidized and Unsubsidized Loans, or are multiple notes necessary?

❖ What do Option 1 and Option 2 schools do with the promissory notes?

❖ Must the Direct Loan Servicing Center accept the promissory note before funds can be disbursed to the student?

Essential Promissory Note Questions (continued)

❖   Must a promissory note be reprinted if the initial loan amount increases/decreases?

❖   When must the Direct Loan Servicing Center inform the school of the Center's acceptance or rejection of the note?

❖   What causes the Direct Loan Servicing Center to reject a promissory note?

Essential Records

The Direct Loan Servicing Center must have the following records and documents (that your school has accepted) so that the Center can "book" a loan:

❖   loan origination record

❖   promissory note

❖   disbursement record

These records and documents together form an official and binding obligation between the borrower and the federal government.

Loan Origination Records

In the Direct Loan Program, originating a loan is comparable to certifying a student loan application under the FFEL Program. Data are collected and either reported on a student loan application for certification (FFEL) or entered into a loan origination record (Direct Loans). In both cases, the data become the basis for making a loan. There are fewer data elements in Direct Loans than in FFEL because the Expected Family Contribution and Cost of Attendance do not have to be entered into the Direct Loan origination record.

Creating Loan Origination Records

All schools will create loan origination records. The loan origination record

❖   is part of the borrower's permanent loan record in the Department's loan data base

❖   consists of necessary demographic and financial information and loan-specific information

❖   is the foundation required for the Department to "book" a loan, as mentioned earlier

❖   must be **originated** while the borrower meets all loan eligibility requirements

The date the loan origination record is created might not be the same as the date of origination. A loan origination record can be created without every data item being entered, for example, or the record could contain information that turns out to be incorrect. The date of **origination** is the date all information in the loan origination record is complete and accurate. **Note that you cannot make a late disbursement unless the record is** *originated* **while the student is eligible.**

Certain data items are required to establish the loan origination record. To get started, you should know those data elements and where they come from. The chart below describes the items required to complete loan origination records and identifies the items' possible sources. The chart is for schools using the Direct Loan software on a PC exclusively or in combination with PC software and/or mainframe. Schools using a mainframe exclusively will want to devise their own charts.

LOAN RECORD DATA ELEMENTS CHART

Use the following key:

F = Data come from FAFSA

I   = Data come from the school and may require manual key-punching

G = Global parameters; the data are universally set by Direct Loan system set-ups and parameters

S = System-generated; the Direct Loan software calculates the data element

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NOTE: Some data elements, such as the year in school, could come from the FAFSA or the school. For this chart, if the data element is on the FAFSA, it is coded "F."

Direct Loan Record Data Items

Borrower/Student Data Items

- F ◆ borrower's Social Security Number
- F ◆ borrower's name
- F ◆ borrower's address
- F • borrower's home phone number
- F • borrower's driver's license number and state
- F ◆ borrower's date of birth
- F ◆ borrower's citizenship status (including alien registration number if eligible noncitizen)
- F ◆ student's anticipated graduation date
- F ◆ student's year in school
- I • student's anticipated enrollment program start date
- F ◆ student defaults on an education loan or owes repayment on a grant
- I ◆ PLUS borrower defaults on an education loan or owes repayment on a grant
- I • student's enrollment status
- I • student's enrollment status change date

Promissory Note Data Items

- I • borrower signed promissory note flag
- I • date school verified signed promissory note
- G • promissory note print indicator
- S ◆ promissory note print sequence number
- S • batch number
- S • promissory note status
- S • date promissory note printed
- S • date/batch signed promissory note sent to Servicing Center
- S • date Servicing Center confirms receipt of notes
- I • altered note amount flag

General Loan Record Data Items

- I ◆ Loan type (Direct Subsidized Loan, Direct Unsubsidized Loan, Direct PLUS Loan)
- I ◆ requested loan amount (cannot be more than loan eligibility)
- I ◆ loan amount approved (loan eligibility)
- I ◆ user that created record
- G ◆ school code number
- G ◆ loan period start date
- G ◆ loan period end date
- S ◆ loan identifier
- S ◆ loan year
- S ◆ loan sequence number
- S • origination record transmit date
- S • anticipated loan fees
- S • anticipated gross loan amount
- S • anticipated net loan amount
- S • loan origination status
- S • origination date
- S • date/time record created
- I • loan cancellation code/date

Disbursement Data Items

- I • reason/date disbursements cancelled
- I • date disbursements made
- I • refund code/date
- G ◆ anticipated disbursement dates
- S ◆ gross anticipated disbursements
- S ◆ anticipated fee amounts
- S ◆ net anticipated disbursements
- S • date disbursement records sent to Servicing Center
- S • disbursement batch number and drawdown date
- S • disbursement reconciliation dates

◆ Required for transmitting loan origination record to Servicing Center

Loan ID

The loan ID is created at the time you create the loan origination record. The loan ID appears at the bottom of the promissory note and ties together the promissory note and loan origination record . The loan ID comprises the following elements taken from the origination record:

❖   borrower's Social Security Number

❖   loan type

❖   loan year

❖   school code

❖   loan sequence number

Creating Loan Origination Records

You create these records electronically using either the software the Department provides or other software that meets the Department's specifications. You may produce the records by

❖   importing data from the EDExpress *Institutional Student Information Record* (ISIR) or packaging system database (which could contain data from the ISIR data base)

❖   importing data from the school's database

❖   key entering the necessary data from the Student Aid Report and other hard copy documents

Once all required data items are complete, you transmit the loan origination records to the Direct Loan Servicing Center. For Option 1 and Standard Origination schools, the Direct Loan Servicing Center must accept the records before sending funds.

Option 2 schools may submit loan origination records before transmitting disbursement records and promissory notes or may submit everything simultaneously. **Note that if these schools transmit actual disbursement records before origination records, the disbursement records will reject no matter which option is used.**

Causes for loan origination record rejection include

❖ incomplete demographic information (name, address, driver's license number, alien registration number)

❖ anticipated disbursement inconsistencies (fewer than two disbursements, unless your school is an experimental school; outside the loan period; not in date order; or greater than total approved loan amount)

See Appendix E (Promissory Note Review/Acceptance Guidelines and Edits) for a discussion of reject edits.

NOTE: To create a loan origination record for a Direct PLUS Loan, you need only the student's Social Security Number and student's name (last name, first name, and middle initial).

Promissory Notes

Loan origination records must be created in order to print promissory notes. The borrower must always complete, sign, and date the promissory note before the loan is disbursed. Promissory notes can be distributed to borrowers anytime between determining loan eligibility and disbursement.

When the required data elements are entered into the loan origination record, the software flags the promissory note as ready to print. The Direct Loan Servicing Center prints and distributes all promissory notes for Standard Origination schools.[1] Option 1 and Option 2 schools can print their own promissory notes or have the Direct Loan Servicing Center print them.

The promissory note must contain the borrower's permanent address; however, the note can be mailed to the borrower's local or permanent address.

❖ Borrowers attending Standard Origination schools must return all promissory notes to the Direct Loan Servicing Center, which will send these schools an electronic acknowledgment, indicating whether the notes have been accepted or rejected.

❖ Borrowers attending Option 1 and Option 2 schools must return all promissory notes to the school.

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[1] Keep in mind that beginning in 1996-97, the Department may modify any functions a particular school performs under any origination option (see Chapter 1, page 1-3). Therefore, the description of functions here may vary from school to school.

Option 1 and Option 2 Schools

✦   If you are at one of these schools, you may print your own promissory notes, using either

  •   software or preprinted forms the Department provides, or

  •   other software that prints the entire form (providing that the resulting promissory note meets Department specifications).

✦   You may choose to have the Direct Loan Servicing Center print promissory notes for you, if you prefer.

✦   You can change some information in the promissory note but not the signature, interest rates, fee rates, or the language that explains the loan's terms and conditions.

✦   The Direct Loan software automatically defaults to printing two copies of the promissory note. The borrower keeps one copy and signs and returns the other copy to the school, which transfers the note to the Direct Loan Servicing Center. Schools are not required to keep copies of promissory notes.

✦   For a Direct PLUS Loan application/promissory note, you

  •   enter the application data (after you review it for completeness and accuracy), using the software the Department provides, or

  •   send the application/promissory note documents to the Direct Loan Servicing Center for data entry. The Servicing Center transmits keyed data to you for entry of disbursement information and origination. **NOTE: Sending application/promissory note documents to the Servicing Center will not be an option after 1996-97.**

✦   You may print one promissory note for a Direct Subsidized Loan and one for a Direct Unsubsidized Loan or use one promissory note for both. There must be a separate note for Direct PLUS Loans.

✦   After reviewing the promissory note, you forward it with the loan origination record to the Servicing Center before, or along with, a disbursement record.

  •   For Option 2 schools, valid promissory notes do not have to be transmitted to, or accepted by, the Direct Loan Servicing Center before funds are requested or disbursed.

- For Option 1 schools, valid promissory notes must be accepted by the Direct Loan Servicing Center before funds are disbursed.

❖ Certain edits will cause the promissory note to be rejected. The complete list of edits is included in the appendices; however, the main reasons may be related to

- missing data

- borrower alterations

- a promissory note amount greater than the loan approved amount in the loan origination record

❖ Option 1 and Option 2 schools are not required to create a new promissory note if the amount of the loan decreases. If the loan amount increases after the promissory note has been printed, schools can

- print a new promissory note covering the incremental difference, or

- prepare a new note based on the total loan amount. If a new note is prepared for the total loan amount, the old loan must be cancelled.

See the chart on the next page for what to do when loan amounts change.

Loan Amount Increases

Situation	Action
After the loan origination record is created and	The approved loan amount may be increased without creating a new loan record or loan ID.
• Before the promissory note is printed or requested to be printed	No action necessary
• After the promissory note is printed but before it is signed	Must print a new promissory note
• After the promissory note is signed but before it is sent to the Direct Loan Servicing Center	Must print a new promissory note and get it signed.
•After the promissory note is sent to the Direct Loan Servicing Center but before loan funds are actually disbursed	A new loan record and loan ID number must be created and a new promissory note must be printed (or requested to be printed) for either the incremental increase or the entire new loan amount If a new record is created for the entire new loan amount, the prior loan record must be manually cancelled.
•After loan funds are disbursed	A new loan record and loan ID number must be created and a new promissory note must be printed (or requested to be printed). This is a new loan. There are now two loans unless the first is cancelled

Loan Amount Decreases/Stays the Same

Situation	Action
If the approved loan amount decreases or if the approved loan amount stays the same but there are other loan record changes	No action is required unless the borrower requests a new note that reflects the actual amount of the loan. In that case, the school would create a new loan record (you must manually cancel the original loan record) and loan ID number and print a revised promissory note or request that a revised note be printed by the Direct Loan Servicing Center.

Conveying Records and Notes

Option 1 and Option 2 schools may transmit loan origination records and promissory notes separately and await confirmation from the Direct Loan Servicing Center between each submission. Alternatively, these schools may transmit the loan origination record and submit the promissory note before disbursement and transmit the disbursement record containing the gross or net disbursement amounts after the student is paid. An Option 2 school may submit all three records simultaneously.

From an institutional management perspective, it is desirable to establish a regular schedule for submitting all records and documents to the Direct Loan Servicing Center. The Department suggests that schools submit records in batches of 50 or less.

Option 1 and Option 2 Schools

If you are at one of these schools, the following steps outline the typical sequence of events for submitting Direct Subsidized and Direct Unsubsidized Loan origination records and promissory notes:

❖ You transmit an electronic origination record that includes **all** required data elements to the Department's Direct Loan Servicing Center.

❖ The Servicing Center verifies the loan origination record for completeness and accuracy and returns an electronic acknowledgment the following morning.

❖ The Servicing Center resolves directly with your school any problems such as incomplete loan origination records or inconsistent information. The Servicing Center edits and validates electronically received loan origination data within one business day.

   If you cannot correct the problem, you contact the borrower for resolution. The Direct Loan Servicing Center stores these records until the loan is booked or the record is cancelled or archived. (The Servicing Center keeps all valid loan origination record on line for two years before archiving the records.)

❖ The Servicing Center will accept promissory notes anytime during the origination process but cannot electronically acknowledge receipt unless a valid origination record exists and unless you have transmitted an **electronic manifest** to the Servicing Center.

   • You must send a paper promissory note manifest along with completed promissory notes to the Servicing Center.

- The Direct Loan Servicing Center will verify receipt of promissory notes against the paper or electronic manifest and return the paper manifest signed by a Servicing Center representative.

- You should transmit an electronic manifest to the Direct Loan Servicing Center immediately to avoid any delay in receiving an electronic acknowledgment.

- The Servicing Center will review each promissory note to ensure it is complete.

- If the note has been accepted, it is processed; if an electronic manifest is present with the exact loan ID and print sequence number, you will re-ceive an electronic acknowledgment in three business days. If an exact match cannot occur, the acknowledgment may be delayed an additional three business days.

- If the note has been **rejected** at the Direct Loan Servicing Center, a new note must be printed. The Servicing Center returns the original note to you for reissue. If the electronic manifest is present, the Servicing Center transmits a rejected electronic acknowledgment to you in three business days.

  You might want to maintain a log of promissory note rejections and use this information to improve your instructions to borrowers and to im-prove the promissory note review process.

- If the note is **incomplete** (the note requires some alteration to be accepted), the Servicing Center returns it to you for completion. The Servicing Cen-ter will not send an electronic acknowledgment until the note is com-pleted and returned to the Servicing Center. You do not need to retrans-mit an electronic manifest for promissory notes in this status.

❖ When the Servicing Center accepts the note, the Department has taken re-sponsibility for it, and the school's liability for the note ends. The school may retain or destroy its copies of accepted promissory notes.

The school's liability for drawdown of funds continues until the funds drawn down match booked loans, and unused funds are returned.

The Department's software will track the status of items submitted to the Direct Loan Servicing Center. You will be able to select certain "error" codes to look at

records that have not been accepted and determine what additional action is necessary. If you cannot correct the problem, you contact the borrower for resolution.

Determining When to Begin the Loan Process (Option 1 and Option 2 Schools)

Although you must decide when to begin loan origination, remember that you must create the loan origination record while the student is eligible. If you create award notifications, you can create a loan origination record with an offered loan amount or with an accepted loan amount.

You should consider the following issues:

❖ Do you want to send promissory notes with your award notifications?

 If you send award notices and promissory notes together, you will most likely produce promissory notes from offered loan amounts; therefore, you will need to create a loan origination record early in your process. If you decide to create a promissory note after borrowers accept their loan offers, you would create the loan record and the promissory note at a later date.

❖ Using the chart on page 5-14 can help determine how your process should operate. The chart demonstrates the pros and cons of creating the loan record/promissory note at different intervals.

❖ During non-enrollment periods, you might mail your promissory notes separately from your award letter. However, once school starts, you may want to mail them together to speed the process.

❖ How will you handle students to whom you mail promissory notes but who fail to return them? Will you have duplicate notes available during the first days of school?

❖ You may reduce financial liability by minimizing the length of time you store signed notes before mailing them to the Direct Loan Servicing Center. An auditor will not consider the notes financial assets, but there may be contingent liabilities (if disbursements have been made) until the Direct Loan Servicing Center accepts the notes. Note that although no specific school security requirements for promissory notes exist, a school must safeguard all promissory notes in its possession. Submitting promissory notes frequently will help minimize their loss or destruction.

- Consider safeguarding promissory notes in your possession by placing them in a fireproof cabinet.

- Consider retaining a copy of each promissory note until the Direct Loan Servicing Center accepts it.

- Consider mailing your promissory notes in small batches via a traceable overnight carrier.

Time Frame Comparison For
Promissory Note and Loan Record Creation

Student files | School receives | | School Starts
FAFSA | SAR, ESAR

Award letter sent

Better address available

SEASONS	PROS	CONS
SPRING **Prior to Academic Year (AY)** Send promissory note with award notice	Better chance of borrower returning promissory note Reduced time/cost if sent together Client service benefit to receive full packet in the mail Complete references	Likelihood of loan amount changing Printing and mailing costs for students who do not attend
SUMMER **Prior to AY** Send promissory note Award letter sent in spring	Less chance of loan amount changing (more resource information)	Greater address problem in summer Lower likelihood of promissory note return due to bad addresses and separate mailing for note
FALL **Prior to AY** Make promissory note available Award letter sent in spring	Greatest chance loan amount is accurate Reduce printing of promissory notes for students not attending Captive student audience	Long lines for promissory note signing Signing legal document on the spot Refund detail may not be available